

ASX MARKET ANNOUNCEMENT

Friday, 25 August 2017

ASX Codes : KBC; KBCPA

UPDATE – PRIVATE EQUITY LOAN RECEIVABLE

Keybridge Capital Limited (**Keybridge**) currently holds a US\$4.3m limited recourse promissory note (**Note**) issued by RPE I Investor LLC (**RPE Investor**) (a subsidiary of [Republic Financial Corporation](#) (**RPC**), a US private investment company) secured (via collateral pledged) over RPE Investor's ~50% (Limited Partners') (contributed capital) interest in the Republic Private Equity I Limited Liability Limited Partnership, a private equity fund (managed by a related party to RPC) with investments in two active US based manufacturing/distribution businesses (**RPE Fund**).

The principal and accrued interest (at 14.5% pa) under the Note is repayable on maturity on 29 December 2017 (which is subject to extension/re-finance by mutual agreement of the parties).

Keybridge suspended recognition of accrued interest on the Note in March 2014 – the loan balance (principal and accrued interest) at this time was US\$5.005 million, which has been recognised as the carrying value up to the most recent 31 December 2016 half year balance date.

Keybridge has recently received the RPE Fund's 30 June 2017 Quarterly Report (unaudited) (**June 2017 RPE Accounts**) which disclosed a significant reduction in the RPE Fund's gross asset position as well as notice from an RPC Executive (**Republic**) that it is 'highly unlikely that the Note will be satisfied on or before its scheduled maturity' (on 29 December 2017) and a proposal for a 3-year extension of the Note term or a 'buy-out' of the Note for US\$0.394 million. Further details are outlined below.

In light of these recent matters, the Board has determined to recognise the carrying value of the Note (receivable) at US\$0.394 million (A\$0.511 million) in its 30 June 2017 accounts, which are currently pending completion of audit for release on ASX on or before 31 August 2017.

This also means that Keybridge will be recognising a US\$4.611 million (A\$5.995 million) provision for impairment expense for the financial year ending 30 June 2017.

By way of background, the Note arose out of a restructure in April 2013 where, as part of arrangements to exit legacy aviation investments (made whilst Keybridge was known as Mariner Bridge Investments Limited in 2006/2007¹), Keybridge restructured its participation in a US closed-end private equity fund managed by Republic, which also managed the aviation investment.

Under the April 2013 restructure:

- Keybridge received US\$29.7 million cash from the sale of the Company's remaining aircraft investments;
- Keybridge sold its private equity asset to RPC for US\$4.3 million fully funded by a Keybridge loan with recourse only to the asset sold (i.e. the Note) - no cash was derived from this transaction;

¹ Refer [2007 Annual Report](#) released on 24 October 2007

- Keybridge used the funds received to retire the balance of its corporate debt facility (US\$19 million).

For further information, refer to Keybridge's ASX Announcements dated:

- 1 May 2013: [Sale of Aircraft and Full Repayment of Corporate Debt Facility](#); and
- 10 April 2013: [Quarterly Update – January to March 2013](#).

Keybridge notes that none of the current Board members were involved in the above RPC related restructure.

In Keybridge's 30 June 2017 Net Asset Backing announcement released on 14 July 2017, the Note (disclosed as Private Equity Loan Receivable) was impaired to a carrying value of US\$4 million.²

In Keybridge's 31 July 2017 Net Asset Backing announcement released on 14 August 2017, the Note was impaired further to a carrying value of US\$3 million.³

Based on the current impaired carrying value of US\$0.394 million, Keybridge's restated 31 July 2017 Net Asset position is \$23.417 million or \$0.1475 per share (pre and post-tax).

Prior to receipt of the June 2017 RPE Accounts and the Republic correspondence, Keybridge intended to recognise the Note at a carrying value of US\$3 million (A\$3.9 million) with a US\$2.647 million provision for impairment expense incurred for the financial year ending 30 June 2017.

The reduction in the carrying value from US\$5.01 million to US\$4 million and further to US\$3 million (as reflected in the Keybridge June and July 2017 Net Asset Backing announcements respectively) was made in light of the Keybridge Board's assessment of the underlying value of the security provided for the Note based on the RPE Fund's then most recently published Quarterly Report for 31 March 2017 (unaudited) (**March 2017 RPE Accounts**). The March 2017 RPE Accounts showed that:

- The RPE Fund had net assets of US\$11.536 million, which included investments in two businesses valued at their equity interests totalling US\$15.535 million;
- The balance of the Limited Partners (contributed capital) interest in the RPE Fund was US\$7.551 million (being US\$13.72 million contributed less subsequent distributions/income received and after relevant costs); and
- RPE Investor's ~50% interest represented US\$3.776 million.

Upon a theoretical 'winding up' of the RPE Fund, the available distributable net assets (ie. realised assets less repayment of creditors and costs and less payment of applicable taxes) would be available for priority distribution to the Limited Partners (in respect of their contributed capital balance plus an additional distribution representing a 10% preferred return on their capital investment) before a distribution to the General Partners.

Further, RPE Investor had advised Keybridge that based on the expected valuations of the RPE Fund's remaining investments and the amount required to satisfy the liabilities of the fund (including payment of applicable corporate and state taxes on the realisation of the investments), there was likely to be sufficient distributable cash to satisfy the repayment of the Limited Partners' contributed capital balance (in full) plus all or a portion of their 10% preferred return with no distributions likely for the General Partners.

Keybridge has subsequently received the June 2017 RPE Accounts which disclosed a significant reduction in the RPE Fund's gross asset position as well as notice from Republic:

- proposing a 'buy-out' of the Limited Partners' interests in the RPE Fund;

² Refer KBC's ASX Announcement dated 14 July 2017: [Net Asset Backing – June 2017](#)

³ Refer KBC's ASX Announcement dated 14 August 2017: [Net Asset Backing – July 2017](#)

- advising that it is 'highly unlikely that the Note will be satisfied on or before its scheduled maturity' (on 29 December 2017); and
- proposing a 'buy-out' of the Note or a 3-year extension of the term of the Note.

Further particulars received by Keybridge in this regard are summarised below:

- In the June 2017 RPE Accounts, the RPE Fund's net assets had reduced to US\$2.156 million principally as a result of investments in two businesses being impaired to a total of US\$6.336 million - this value represented only one of the businesses (**Business A**), which was impaired from US\$11.887, with the other business impaired from US\$3.649 million to nil (compared with the March 2017 RPE Accounts);
- The RPE Fund advised that based on an illustrative realisation of Business A at its gross carrying value (at the enterprise level) and after deducting costs/fees associated with the sale, repayment of liabilities (at the enterprise level), payment of applicable taxes (at the RPE Investor ownership level) and repayment of creditors and liabilities (at the RPE Fund level), only US\$0.899 million would be available for distribution (to the Limited Partners);
- RPC proposes a 'buy-out' of all the Limited Partners' interest in the RPE Fund for a total consideration of US\$0.899 million, with RPE Investor's allocation being US\$0.394 million (**Buy-Out**);
- If an actual sale of Business A was able to be completed at a higher price, the Buy-Out price would be increased accordingly;
- The Buy-Out is subject to acceptance by at least 80% of the Limited Partners with completion expected prior to 31 October 2017;
- If the Buy-Out proceeds, those Limited Partners who did not agree to the same will receive a pro-rata distribution of RPE Fund's equity interests in the 2 businesses as well as a pro-rata assumption of RPE Fund's liabilities;
- If the Buy-Out does not proceed, the current RPE Fund structure will 'likely stay in place';
- The Limited Partners' position in respect of the Buy-Out is sought by 15 September 2017;
- As Keybridge has a collateral/security interest in the RPE Fund's Limited Partner's interest in the RPE Fund, Keybridge's position on the Buy-Out has also been sought;
- Republic has also sought Keybridge's position in relation to whether to:
 - (a) Extend the Note term by 3 years to mature on 29 December 2020; and
 - (b) Accept RPE Fund's offer to retire the Note debt for US\$0.394 million (in line with the Buy-Out allocation amount to RPE Investor as above) and concluding Keybridge's investment relationship with Republic.

Keybridge is reviewing Republic's correspondence and has sought further information from Republic to confirm, amongst other matters, the asset valuation expectations and liabilities exposure outlined by Republic.

As none of the current Board members were involved in the Republic related restructure in 2013, Keybridge is also reviewing historical matters pertaining to the Note, the RPE Fund and RPE Investor.

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ABOUT KEYBRIDGE CAPITAL LIMITED (ASX: KBC)

KBC is an investment and financial services group with a diversified portfolio of listed and unlisted investments/loan assets including in the solar (Spain), private equity (US), life insurance (New Zealand), property and funds management sectors and strategic holdings in [HHY Fund](#) (ASX:HHY), [Molopo Energy](#) Limited (ASX:MPO) and [Metgasco](#) Limited (ASX: MEL).